

EASTERN CORPORATION LIMITED

CORPORATE GOVERNANCE STATEMENT

The main corporate governance practices of the Company are set out below.

The primary role of the Board is to ensure the long-term health and prosperity of the Company, which it aims to accomplish by:

- Approving objectives, goals and strategic direction set by management with a view to maximising shareholder value;
- Adopting an annual budget and monitoring financial performance;
- Ensuring adequate internal controls exist and are appropriately monitored for compliance;
- Identifying and appropriately managing significant business risks;
- Having a Board that comprises Directors with an appropriate level of expertise, experience and skill, so as to ensure that commercial opportunities are taken advantage of and risks managed; and
- Setting the highest of business standards and codes of ethical behaviour.

(a) Board of Directors

(i) Responsibilities

The Board is responsible for the Company's corporate governance and approves the business strategy of the Company. It authorises all major transactions and reviews operational and financial performance. The Managing Director conducts the day-to-day affairs of the Company and is accountable to the Board.

(ii) Composition

The Board currently comprises four members, being three independent non-executive Directors (one of whom is the Chairman) and one executive Director (the Managing Director). Details of each Director's background appear in the Company's Annual Report.

(iii) Nomination and Election of Directors

The Board can at any time appoint any suitably qualified and experienced person to be a Director. That person holds office until the next Annual General Meeting and is then eligible for election at that meeting. One third of the non-executive Directors retire by rotation at each Annual General Meeting and are eligible for re-election.

(iv) Meetings

Board meetings are held at the Company's principal administrative office, usually on a monthly basis. The number of meetings and attendances by Directors during the financial year are detailed in the Directors' Report.

(v) Independent Advice

Directors have access to the advice of independent external experts at the expense of the Company, should they consider it necessary. Any advice that is obtained is also made available to the members of the Board.

(b) Directors' indemnity

Under the Company's Constitution and pursuant to respective Deeds of Indemnity, each Director of the Company (and its subsidiaries) is indemnified to the extent permitted by law against:

- Liability to third parties arising out of conduct undertaken in good faith in his capacity as a Director; and
- The costs and expenses of defending legal proceedings arising out of conduct undertaken in his capacity as a current or former Director, unless the defence is unsuccessful.

The Company also has in place a Directors and Officers Liability Insurance Policy, for which the Company pays the premium, insuring the Directors against certain liabilities they may incur in carrying out their duties and responsibilities for the Company.

(c) Contracts with Directors

The Company's Constitution provides that a Director may enter into an arrangement with the Company and Directors or their firms may act in a professional capacity for the Company. However, these arrangements are subject to the restrictions and disclosures in the *Corporations Act* applicable to public companies and common law Directors' duties.

During the course of last year, no Director has received or become entitled to receive a benefit because of a contract between the Company and the Director, or a firm of which the Director is a member, other than as disclosed in the Notes to the Financial Statements contained in the Annual Report.

(d) Ethical standards

The Company is committed to high ethical standards in its operations and in its dealings with shareholders. All Directors are required to adhere to a Corporate Ethics Policy and they are restricted from dealing in Company securities when they are in possession of price sensitive information and during specified periods before or after the release of half and full year results. This Policy is available on the Company's website.

(e) Shareholder communication

The Board ensures that shareholders are provided with adequate information regarding the performance of the Company and any price sensitive information in a timely manner. The Company's policy is to lodge with the ASX and place on its web-site market sensitive information, including annual and half yearly results announcements and any relevant analyst presentations, as soon as practicably possible. The Company's web-site www.easterncorp.com.au contains recent announcements, shareholders' circulars and relevant financial data as well as the Company's Corporate Governance Statement and related documents.

(f) Directors' remuneration

Non-executive Directors are remunerated for the value of their work and commitment to the Company as it strives to maximise the worth of its assets. The current level of total annual remuneration payable to non-executive Directors of the Company and its subsidiaries (as approved by shareholders under the Company's

Constitution) is \$300,000 and is allocated among the non-executive Directors as they decide.

Subject to shareholder approval, non-executive Directors may also be granted options over the Company's shares as a reward and incentive for services they provide to assist in furthering the Company's progress, future growth and success.

(g) Board committees

Only one committee is currently in place as the Board considers it unnecessary to have any others given there are only 4 Directors (of which one is an executive) and the Company is relatively small.

The Audit Committee comprises three members – the independent non-executive Directors Richard May (chairman) and John McIntyre, and Miss Sam Aarons, Business Development & Corporate Relations Manager. The Managing Director is invited to attend meetings should he have questions or wish to acquire information. Audit matters are considered at meetings of the committee. In addition to statutory reporting issues, the Audit Committee also considers business risks, the adequacy of the Company's control environment and all internal audit findings, as well as monitoring compliance with corporate governance matters. The Company's external auditors attend relevant meetings as does the Chief Financial Officer.

The Audit Committee is established under a Charter which governs its operations and is available on the Company's website.

(h) ASX Corporate Governance Guidelines

In 2007 the ASX Corporate Governance Council released its revised Principles and Recommendations ("the ASX Guidelines"). Before referring to the specific principles set out in the ASX Guidelines and the extent to which the Company complies with those Guidelines, the following observations are made:

- The Company has a relatively small market capitalisation and (as a resource extraction and exploration entity) limited sources of ongoing income. As a consequence, the available cash reserves of the Company (and its controlled entities) are intended to be applied so as to maximise shareholder value.
- Again, because of limited available financial resources, the Company (apart from its Directors and Company Secretary) has relatively few executives. Rather than the task of rigorously adhering to the ASX Guidelines (which are still acknowledged as being important), the principal focus of the Company is to maximise the technical skill and expertise of its Directors and employees, so as to enhance the value of the Company's assets.
- The non-executive Directors dedicate considerable time and effort to the affairs of the Company. They manage to do so within busy schedules for other work and business commitments and, as a consequence, the principal focus of their endeavours (while operating within a sound base for corporate governance) must necessarily be promotion of the Company's activities and improving shareholder value.

It is within the above context that the Directors believe they have established the most appropriate processes to ensure compliance wherever reasonably possible

with the ASX Guidelines. These processes have been in place throughout the reporting period.

With regard to the ASX Guidelines, the Directors make the following observations:

Principle One – Lay solid foundations for management and oversight

Functions reserved to the Board and Directors' responsibilities are set out in this Statement rather than a separate board charter. Directors are provided with a letter on appointment which details the terms and conditions of their appointment, provides clear guidance on what input is required by them, and includes materials to assist with induction into the Company.

The Company has a Managing Director, Campbell Smith, as well as a small group of experienced senior management personnel. Each of these persons has entered into arrangements with the Company (and/or its controlled entities) making provision for the conduct of the individual's responsibilities in respect of the day-to-day activities of the Company. The authorities granted to senior executives are delegated by the Board. The Board meets at regular intervals, or as necessary, and executive management personnel communicate with Board members between Board meetings both to inform them and/or seek their counsel as appropriate.

Performance evaluation of executives is conducted by the Board in consultation with the Managing Director and has taken place during the last financial year in accordance with the processes described in the Remuneration Report section of the Directors' Report.

Principle Two – Structure the Board to Add Value

The non-executive Directors of the Company are considered to be independent. The Board's view is that an independent director is a non-executive Director who does not have a relationship affecting independence on the basis set out in the ASX Guidelines and meets materiality thresholds agreed by the Board as equating to payments to them or related parties of 5% of the Company's annual revenue or representing 20% of the individual's business revenue.

The Board is currently structured in such a way that three of the Board members, Campbell Smith, John McIntyre and Steven Koroknay, have many years of experience in the mining industry. The Chairman, Richard May, is a chartered accountant with strong competencies in finance, accounting and compliance. Accordingly, the blend of experience and skills assembled at the Board is considered appropriate for a company at this stage of its commercial existence.

The Board has not formed a separate nomination committee, which it finds unnecessary at this stage of the Company's evolution, favouring a 'whole-of-board' approach to the selection of replacement or additional Directors.

The Board operates an on-going self-assessment and evaluation process which includes from time-to-time the assessment of Director competencies and suitability to the Company as it evolves over time. The Board's principal benchmarks are the Company's operational and financial performance compared to similar organisations.

Similar evaluation of committee composition and member performance is conducted from time-to-time.

The Company Secretary, Bill Lyne, plays an integral role in monitoring the conduct of activities of the Board and any committees, as well as the despatch of material to Board members; he is responsible for overseeing adherence to Board policies and procedures and is accountable on governance matters.

Principle Three – Promote Ethical and Responsible Decision-Making

The Company has a formal Corporate Ethics Policy, to which each Director is a party and signatory. Specific features of the Policy include:

- Restrictions on Directors' dealings with Company shares;
- Requirements in terms of disclosure of information to the ASX and the Company's continuous disclosure obligations generally;
- Notification of Directors' shareholding and contractual interests;
- Restrictions in the Company's ability to provide financial benefits to Directors and other related entities;
- Responsibilities in respect of the Company's accounts and other financial statements; and
- The process of constantly identifying and evaluating risks, and monitoring financial and business control procedures.

The Company has not yet established any formal code of conduct for the observance by Directors and employees of legal and other compliance obligations that relate to the Company's activities, other than what is specified in individual employment agreements. Nonetheless, the Company's executive team continues to work hard to establish and maintain good relationships with key stakeholders involved with the projects in which the Company has an interest. As a producer/potential producer of coal and gas, the Board recognises a strong need to maintain good relations with government departments, local authorities, landowners, indigenous peoples, potential joint venture partners and the like.

Principle Four – Safeguard Integrity in Financial Reporting

The Chief Financial Officer oversees the Company's financial resources, records and reporting.

The Board requires the persons performing the roles of Chief Executive Officer and Chief Financial Officer to declare in writing to the Board at the time of approving and signing the annual and half-yearly accounts that, in their opinion, the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards, as required by Section 295A of the *Corporations Act*. Both these officers also report to the Board at its regular meetings.

Additionally, (as identified above) an Audit Committee has been established that works in conjunction with the Company's external auditors to ensure the presented accounts are in accordance with accounting principles. The composition of the Audit Committee represents a blend of non-executive Directors and senior management personnel. Whilst the Committee's chairman is also Chairman of the Board, contrary

to the ASX Guidelines, it was decided that Richard May's strong finance and accounting background made him the more appropriate person for this role at the present time.

Principle Five – Make Timely and Balanced Disclosure

The Company's Corporate Ethics Policy (as referred to above) includes a contractual obligation on the part of each Director to disclose information in his possession and, in particular, his dealings in relation to shares in the Company to enable the Company, in turn, to meet its ASX reporting obligations. In addition, there is an internal protocol that has been established involving the Managing Director (Campbell Smith), Business Development & Corporate Relations Manager (Miss Sam Aarons) and the Company Secretary (Bill Lyne) to arrange for the timely preparation and release of all announcements to the ASX.

Given the relatively small size of the Company's senior executive team the Board has decided that, for the time being, it is not necessary to put in place any further formal policies to assist in compliance with ASX disclosure requirements.

Principle Six – Respect the Rights of Shareholders

The Company has not yet established a formal communications policy. Rather, it does have a reasonably informative web-site as the basis for maintaining close contact with shareholders and it is regularly updating the site, in recognition that these days the Company's web-site is one of the main avenues for keeping shareholders and market participants aware of the Company's activities.

In addition, the Company has implemented other strategies so as to provide shareholders with an opportunity to access reports and other releases by way of email, subject to the *Privacy Act* requirements. The Company's Corporate & Investor Relations Manager is a full-time employee with the principal responsibility for shareholder liaison.

Shareholders are also encouraged to participate in Annual (and other) General Meetings to ensure a high level of accountability and identification with the Company's strategies and goals.

A copy of the AGM Notice is sent to the Company's external auditor as required by law. As also required by law, the auditor's representative attends the AGM and is available to answer questions from shareholders about the conduct of the audit and the preparation and content of the auditor's report.

Principle Seven – Recognise and Manage Risk

Given the Company's involvement in mining extraction and exploration the Board is cognisant of the risks that can potentially impact on its people and its business operations and the need for active risk management and mitigation. To this end, the Audit Committee has (as part of its Charter) overall responsibility for ensuring that necessary controls are in place to manage risk, although the Company has not yet developed a concise risk management policy.

The Company's executive team has operational responsibility for the implementation of risk management and has put in place appropriate policies, including workplace

health and safety (WH&S), specifically covering the group's coal mining operations in New Zealand and its exploration activities in the Galilee basin.

Whilst WH&S/risk management is a standing Board agenda item, and relevant matters are discussed regularly by the Board, no formal report as to the effectiveness of the management of the Company's material business risks has yet been developed for the Board. However, the Audit Committee is currently considering a review and update of the Company's risk management systems, procedures, adherence and effectiveness, including formal reporting to the Board.

Also, the Board does require the persons performing the roles of Chief Executive Officer and Chief Financial Officer to state in writing to the Board that the declarations provided in accordance with Section 295A of the *Corporations Act* at the time of approving and signing off the annual financial statements are, in their opinion, founded on sound systems of risk management and internal compliance and control and such systems are operating efficiently and effectively in all material respects in relation to financial reporting risks.

Principle Eight – Remunerate Fairly and Responsibly

No separate remuneration committee has been formed as the Directors consider it appropriate, given the relatively small size of the Company, for such matters to be determined at Board level.

The Board considers that the Directors are sufficiently qualified to consider and decide on matters covering recruitment and remuneration of senior executives, superannuation arrangements, Directors' remuneration and retirement benefits. However, external professional advice may be sought from experienced consultants where appropriate to assist in the Board's deliberations.

The Board maintains a view that a remuneration policy exists which provides the requisite degree of incentive so as to not only attract but to maintain suitably qualified personnel. In addition, the Company has a shareholder approved Employee Share Option Plan in place to allow options to be issued to deserving staff as a reward for performance, however no such options have been granted to date. Also, the Board's policies prohibit transactions by executives which might limit the economic risk of participating in unvested entitlements under any equity-based remuneration scheme.

The Board takes a clear and unashamed view that the Company's future success lies in the quality of its team. As a result, a highly-competent and experienced management team has been assembled, but in order to keep that team together adequate financial rewards must be provided.

Full details of the remuneration of Directors and executives is contained in the Remuneration Report section of the Directors' Report.

There is no retirement benefit scheme for any Directors, including non-executive Directors, other than the payment of statutory superannuation.